Michigan Dept. of Treasury, Local Government Audit Division
L-3147 (Rev. 3/96)

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: ☐ City ☐ Township ☐ Village ☒ Other	Local Government Name: Thornapple Manor	County: Barry
Audit Date: December 31, 2004	Opinion Date: March 22, 2005	Date Accountant Report Submitted To State:

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	**Enclosed**	**To Be Forwarded**	**Not Required**
The letter of comments and recommendations.	☐	☐	☒
Reports on individual federal assistance programs (program audits).	☐	☐	☒
Single Audit Reports (ASLGU).	☐	☐	☒

Certified Public Accountant (Firm Name): **PLANTE & MORAN, PLLC**			
Street Address: 750 Trade Centre Way, Suite 300	City: Portage	State: MI	ZIP: 49002
Accountant Signature: Plante & Moran, PLLC			

Thornapple Manor

Financial Report
with Additional Information
December 31, 2004

Thornapple Manor

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Independent Auditor's Report

To the Barry County Family
Independence Agency Board
Thornapple Manor

We have audited the accompanying balance sheet of Thornapple Manor (a component unit of Barry County) as of December 31, 2004 and 2003 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thornapple Manor at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Plante & Moran, PLLC

March 22, 2005

Thornapple Manor

Balance Sheet

	December 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 423,426	$ 260,205
Resident accounts receivable (Note 3)	740,355	564,599
Taxes receivable	1,227,681	1,191,635
Other current assets	45,135	132,915
Total current assets	2,436,597	2,149,354
Assets Limited as to Use (Note 2)	4,697,191	3,879,708
Property and Equipment (Note 4)	3,174,877	3,209,452
Total assets	**$ 10,308,665**	**$ 9,238,514**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 266,471	$ 275,129
Current portion of long-term debt (Note 5)	125,000	100,000
Funds held for residents	15,605	15,548
Estimated third-party payor settlements	521,296	419,652
Accrued liabilities and other:		
Accrued compensation and related liabilities	491,970	514,767
Deferred revenue	1,227,681	1,191,635
Deferred revenue - Proportionate share program	35,503	77,130
Other accrued liabilities	42,728	28,602
Total current liabilities	2,726,254	2,622,463
Long-term Debt (Note 5)	1,975,000	2,100,000
Net Assets		
Invested in capital assets - Net of related debt	1,074,877	1,009,452
Unrestricted	4,532,534	3,506,599
Total net assets	5,607,411	4,516,051
Total liabilities and net assets	**$ 10,308,665**	**$ 9,238,514**

See Notes to Financial Statements.

Thornapple Manor

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31, 2004	Year Ended December 31, 2003
Operating Revenue		
Net service revenue	$ 8,438,144	$ 8,149,240
Other operating revenue	426,289	348,583
Proportionate share reimbursement	271,998	173,749
Total operating revenue	9,136,431	8,671,572
Operating Expenses		
Salaries	5,048,200	4,775,231
Other expenses	4,060,612	3,865,504
Total operating expenses	9,108,812	8,640,735
Operating Income	27,619	30,837
Other Income (Expenses)		
Interest income	62,094	67,081
Gain (loss) on sale of property	(22,089)	-
Contributions	799	2,323
Tax revenue	1,142,882	1,081,434
Interest expense	(119,945)	(129,963)
Total other income	1,063,741	1,020,875
Increase in Net Assets	1,091,360	1,051,712
Net Assets - Beginning of year	4,516,051	3,464,339
Net Assets - End of year	**$ 5,607,411**	**$ 4,516,051**

Thornapple Manor

Statement of Cash Flows

	Year Ended December 31, 2004	Year Ended December 31, 2003
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	$ 8,364,032	$ 7,818,419
Cash received from other operating revenue	426,289	348,583
Cash received from proportionate share program	230,371	148,279
Cash paid to employees and suppliers	(8,811,117)	(8,316,072)
Net cash provided by (used in) operating activities	209,575	(791)
Cash Flows from Noncapital Financing Activities		
Contributions	798	2,323
Cash received from property tax levy	1,142,882	1,081,434
Net cash provided by noncapital financing activities	1,143,680	1,083,757
Cash Flows from Investing Activities		
Patient trust deposits - Net	57	5,098
Interest received	62,094	67,081
Purchases of investments	(817,482)	(829,886)
Net cash used in investing activities	(755,331)	(757,707)
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(100,000)	(100,000)
Interest paid on long-term debt	(119,945)	(129,963)
Purchase of property and equipment	(214,758)	(96,067)
Net cash used in capital and related financing activities	(434,703)	(326,030)
Net Increase (Decrease) in Cash and Cash Equivalents	163,221	(771)
Cash and Cash Equivalents - Beginning of year	260,205	260,976
Cash and Cash Equivalents - End of year	**$ 423,426**	**$ 260,205**

See Notes to Financial Statements.

Statement of Cash Flows (Continued)

A reconciliation of operating income to net cash from operating activities is as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 27,619	$ 30,837
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	227,244	239,999
Provision for bad debts	24,508	-
(Increase) decrease in assets:		
Accounts recievable	(200,264)	(94,422)
Property tax receivable	(36,046)	(82,204)
Prepaids and other current assets	87,780	33,115
Increase (decrease) in liabilities:		
Accounts payable	(8,658)	8,168
Accrued liabilities	(8,671)	43,381
Deferred revenue	(41,627)	(25,470)
Property taxes	36,046	82,204
Third-party settlements	101,644	49,901
Interim advances	-	(286,300)
Net cash provided by (used in) operating activities	**$ 209,575**	**$ (791)**

There were no significant noncash investing, capital, and financing activities for 2004 and 2003.

Note 1 - Nature of Business and Significant Accounting Policies

Thornapple Manor (the "Facility") is a component unit of the County of Barry, Michigan. The Facility is a 138-bed, long-term care facility owned and operated by Barry County. It is governed by the Barry County Family Independence Agency Board. This Board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Assets Limited as to Use - Assets limited as to use consist of funds designated by the Barry County Family Independence Agency Board for future capital purchases.

Property and Equipment - Property and equipment purchases are recorded at historical cost. Donated assets are recorded at fair market value at the time of the donation. Depreciation on such fixed assets is charged as an expense against the operations on a straight-line basis.

Sick and Vacation Pay - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Patient Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of the patients. The patients' trust liability on the balance sheet represents patient trust fund deposits.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Taxes Receivable/Deferred Taxes Revenue - Taxes are levied on December 1 and are payable February 15. The cities and townships within the County bill and collect the property taxes for the County. County property tax revenue is recognized when levied. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations. In 2000, voters of Barry County approved a levy annually of $.85 per $1,000 of assessed valuation for the purpose of general operations of the Facility. The levy was approved for 10 years.

Proportionate Share Reimbursement Program - During the years ended December 31, 2004 and 2003, the Facility participated in this program sponsored by the State of Michigan.

In 2004, two transactions were completed. The first transaction in September was recorded in revenue in relation to the state fiscal year ended September 30, 2004. The second transaction in October was for the state fiscal year ending September 30, 2005 and therefore was recognized one quarter in revenue and three quarters in deferred revenue. The first transaction included an amount equal to approximately 3 percent of the annual Medicaid reimbursement in lieu of the normal administrative adjustment or inflation factor.

In 2003, two transactions were completed. The first transaction in September was recorded in revenue in relation to the state fiscal year ended September 30, 2003. The second transaction in October was for the state fiscal year ended September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of investment in capital assets, net of related debt, or restricted.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	2004	2003
Percent of revenue:		
Medicaid	77 %	74 %
Medicare	12 %	14 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for resident routine service costs, on a per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Operating Revenues and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Facility's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonexchange revenues, including taxes, interest, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Interest expense is reported as a nonoperating expense.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year classifications have been changed to correspond with 2004 classifications.

Note 2 - Deposits and Investments

The Facility's deposits are composed of the following:

	2004		2003	
	Cash	Cash Limited as to Use	Cash	Cash Limited as to Use
Deposits:				
County	$ 398,735	$ 4,697,191	$ 236,257	$ 3,879,708
Bank	23,605	-	23,548	-
Petty cash	1,086	-	400	-
Total	$ 423,426	$ 4,697,191	$ 260,205	$ 3,879,708

Funds on Deposit with County - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits. The certificates of deposit have maturity dates longer than three months.

Cash - Bank - The deposits are reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at $197,255 and $77,032 at December 31, 2004 and 2003, respectively. It is impractical to determine the amount covered by federal depository insurance, as these funds are only a portion of the entire County deposits.

Assets Limited as to Use - The assets limited as to use are funds designated by Barry County Family Independence Agency for future capital purchases.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2004	2003
Resident accounts receivable:	$ 754,855	$ 704,798
Uncollectible accounts	(75,000)	(75,000)
Medicaid interim payment (advances) receivable	60,500	(65,199)
Net resident accounts receivable	$ 740,355	$ 564,599

	2004	2003
Medicare	29 %	17 %
Medicaid	57 %	69 %
Other payors	14 %	14 %
Total	100 %	100 %

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	January 1, 2004	Additions	Retirements	December 31, 2004	Depreciable Life - Years
Land improvement	$ 178,592	$ -	$ (118)	$ 178,474	5-25
Building and improvements	5,718,826	-	(613,519)	5,105,307	10-40
Equipment	1,859,953	40,878	(495,690)	1,405,141	5-25
Construction in process	-	173,880	-	173,880	
Total	7,757,371	214,758	(1,109,327)	6,862,802	
Less accumulated depreciation:					
Land improvements	113,830	6,280	(118)	119,992	
Building and improvements	3,094,767	137,713	(600,954)	2,631,526	
Equipment	1,339,322	83,251	(486,166)	936,407	
Total	4,547,919	227,244	(1,087,238)	3,687,925	
Net carrying amount	$ 3,209,452	$ (12,486)	$ (22,089)	$ 3,174,877	

Note 4 - Property and Equipment (Continued)

Cost of property and equipment and related depreciable lives for December 31, 2003 are summarized below:

	January 1, 2003	Additions	Retirements	December 31, 2003	Depreciable Life - Years
Land improvements	$ 178,592	$ -	$ -	$ 178,592	5-25
Bulding and improvements	5,718,826	-	-	5,718,826	10-40
Equipment	1,763,886	96,067	-	1,859,953	5-25
Total	7,661,304	96,067	-	7,757,371	
Less accumulated depreciation:					
Land improvements	106,539	7,291	-	113,830	
Building and imrovements	2,952,177	142,590	-	3,094,767	
Equipment	1,249,204	90,118	-	1,339,322	
Total	4,307,920	239,999	-	4,547,919	
Net carrying amount	$ 3,353,384	$ (143,932)	$ -	$ 3,209,452	

As of December 31, 2004, the Facility had entered into an agreement for approximately $369,000 for renovations on the Faclity.

Note 5 - Long-term Debt

Long-term liability activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Current Year Additions	Repayments	Ending Balance
Bonds payable - Barry County Building Authority	$ 2,200,000	$ -	$ (100,000)	$ 2,100,000

Long-term liability activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Current Year Additions	Repayments	Ending Balance
Bonds payable - Barry County Building Authority	$ 2,300,000	$ -	$ (100,000)	$ 2,200,000

Note 5 - Long-term Debt (Continued)

In accordance with an agreement entered into in 1994, by and between the Barry County Building Authority and Barry County, the County is leasing the improvements and additions made to Thornapple Manor financed by the Authority. The lease period extends through the year 2017, at which time the Authority shall convey ownership of the property to the County. The principal payments range from $125,000 due in 2005 to $225,000 due in 2017. The interest rates on the outstanding bonds range from 5.3 percent to 6.0 percent at December 31, 2004. The Facility is accounting for these transactions as if they were direct obligations of the Facility.

The following is a schedule by years of bond principal and interest as of December 31, 2004:

Year	Bond Payable	Bond Interest
2005	$ 125,000	$ 118,288
2006	125,000	111,600
2007	125,000	104,788
2008	125,000	97,850
2009	150,000	94,350
2010-2014	825,000	337,600
2015-2017	625,000	76,500
Total payments	$ 2,100,000	$ 940,976

Note 6 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The Facility, as part of the County, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general and auto liability (including medical malpractice), auto physical damage, and property loss claims. The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for the losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims to the retention limits, the ultimate liability for those claims remains with the County.

The Facility is insured for the workers' compensation claims via a policy with a commercial carrier.

Thornapple Manor

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Independence Agency Board
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The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Plante & Moran, PLLC

March 22, 2005

Thornapple Manor

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Total liabilities and net assets	**$ 10,308,665**	**$ 9,238,514**

Thornapple Manor

Statement of Revenue, Expenses, and Changes in Net Assets

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Net Assets - Beginning of year	4,516,051	3,464,339
Net Assets - End of year	**$ 5,607,411**	**$ 4,516,051**

See Notes to Financial Statements.

Thornapple Manor

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Principal paid on long-term debt	(100,000)	(100,000)
Interest paid on long-term debt	(119,945)	(129,963)
Purchase of property and equipment	(214,758)	(96,067)
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Net Increase (Decrease) in Cash and Cash Equivalents	163,221	(771)
Cash and Cash Equivalents - Beginning of year	260,205	260,976
Cash and Cash Equivalents - End of year	**$ 423,426**	**$ 260,205**

See Notes to Financial Statements.

Statement of Cash Flows (Continued)

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Deferred revenue	(41,627)	(25,470)
Property taxes	36,046	82,204
Third-party settlements	101,644	49,901
Interim advances	-	(286,300)
Net cash provided by (used in) operating activities	**$ 209,575**	**$ (791)**

There were no significant noncash investing, capital, and financing activities for 2004 and 2003.

Note 1 - Nature of Business and Significant Accounting Policies

Thornapple Manor (the "Facility") is a component unit of the County of Barry, Michigan. The Facility is a 138-bed, long-term care facility owned and operated by Barry County. It is governed by the Barry County Family Independence Agency Board. This Board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Assets Limited as to Use - Assets limited as to use consist of funds designated by the Barry County Family Independence Agency Board for future capital purchases.

Property and Equipment - Property and equipment purchases are recorded at historical cost. Donated assets are recorded at fair market value at the time of the donation. Depreciation on such fixed assets is charged as an expense against the operations on a straight-line basis.

Sick and Vacation Pay - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Patient Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of the patients. The patients' trust liability on the balance sheet represents patient trust fund deposits.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Taxes Receivable/Deferred Taxes Revenue - Taxes are levied on December 1 and are payable February 15. The cities and townships within the County bill and collect the property taxes for the County. County property tax revenue is recognized when levied. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations. In 2000, voters of Barry County approved a levy annually of $.85 per $1,000 of assessed valuation for the purpose of general operations of the Facility. The levy was approved for 10 years.

Proportionate Share Reimbursement Program - During the years ended December 31, 2004 and 2003, the Facility participated in this program sponsored by the State of Michigan.

In 2004, two transactions were completed. The first transaction in September was recorded in revenue in relation to the state fiscal year ended September 30, 2004. The second transaction in October was for the state fiscal year ending September 30, 2005 and therefore was recognized one quarter in revenue and three quarters in deferred revenue. The first transaction included an amount equal to approximately 3 percent of the annual Medicaid reimbursement in lieu of the normal administrative adjustment or inflation factor.

In 2003, two transactions were completed. The first transaction in September was recorded in revenue in relation to the state fiscal year ended September 30, 2003. The second transaction in October was for the state fiscal year ended September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of investment in capital assets, net of related debt, or restricted.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	2004	2003
Percent of revenue:		
Medicaid	77 %	74 %
Medicare	12 %	14 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for resident routine service costs, on a per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Operating Revenues and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Facility's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonexchange revenues, including taxes, interest, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Interest expense is reported as a nonoperating expense.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year classifications have been changed to correspond with 2004 classifications.

Note 2 - Deposits and Investments

The Facility's deposits are composed of the following:

	2004		2003	
	Cash	Cash Limited as to Use	Cash	Cash Limited as to Use
Deposits:				
County	$ 398,735	$ 4,697,191	$ 236,257	$ 3,879,708
Bank	23,605	-	23,548	-
Petty cash	1,086	-	400	-
Total	$ 423,426	$ 4,697,191	$ 260,205	$ 3,879,708

Funds on Deposit with County - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits. The certificates of deposit have maturity dates longer than three months.

Cash - Bank - The deposits are reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at $197,255 and $77,032 at December 31, 2004 and 2003, respectively. It is impractical to determine the amount covered by federal depository insurance, as these funds are only a portion of the entire County deposits.

Assets Limited as to Use - The assets limited as to use are funds designated by Barry County Family Independence Agency for future capital purchases.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2004	2003
Resident accounts receivable:	$ 754,855	$ 704,798
Uncollectible accounts	(75,000)	(75,000)
Medicaid interim payment (advances) receivable	60,500	(65,199)
Net resident accounts receivable	$ 740,355	$ 564,599

	2004	2003
Medicare	29 %	17 %
Medicaid	57 %	69 %
Other payors	14 %	14 %
Total	100 %	100 %

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	January 1, 2004	Additions	Retirements	December 31, 2004	Depreciable Life - Years
Land improvement	$ 178,592	$ -	$ (118)	$ 178,474	5-25
Building and improvements	5,718,826	-	(613,519)	5,105,307	10-40
Equipment	1,859,953	40,878	(495,690)	1,405,141	5-25
Construction in process	-	173,880	-	173,880	
Total	7,757,371	214,758	(1,109,327)	6,862,802	
Less accumulated depreciation:					
Land improvements	113,830	6,280	(118)	119,992	
Building and improvements	3,094,767	137,713	(600,954)	2,631,526	
Equipment	1,339,322	83,251	(486,166)	936,407	
Total	4,547,919	227,244	(1,087,238)	3,687,925	
Net carrying amount	$ 3,209,452	$ (12,486)	$ (22,089)	$ 3,174,877	

Note 4 - Property and Equipment (Continued)

Cost of property and equipment and related depreciable lives for December 31, 2003 are summarized below:

	January 1, 2003	Additions	Retirements	December 31, 2003	Depreciable Life - Years
Land improvements	$ 178,592	$ -	$ -	$ 178,592	5-25
Bulding and improvements	5,718,826	-	-	5,718,826	10-40
Equipment	1,763,886	96,067	-	1,859,953	5-25
Total	7,661,304	96,067	-	7,757,371	
Less accumulated depreciation:					
Land improvements	106,539	7,291	-	113,830	
Building and imrovements	2,952,177	142,590	-	3,094,767	
Equipment	1,249,204	90,118	-	1,339,322	
Total	4,307,920	239,999	-	4,547,919	
Net carrying amount	$ 3,353,384	$ (143,932)	$ -	$ 3,209,452	

As of December 31, 2004, the Facility had entered into an agreement for approximately $369,000 for renovations on the Faclity.

Note 5 - Long-term Debt

Long-term liability activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Current Year Additions	Repayments	Ending Balance
Bonds payable - Barry County Building Authority	$ 2,200,000	$ -	$ (100,000)	$ 2,100,000

Long-term liability activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Current Year Additions	Repayments	Ending Balance
Bonds payable - Barry County Building Authority	$ 2,300,000	$ -	$ (100,000)	$ 2,200,000

Note 5 - Long-term Debt (Continued)

In accordance with an agreement entered into in 1994, by and between the Barry County Building Authority and Barry County, the County is leasing the improvements and additions made to Thornapple Manor financed by the Authority. The lease period extends through the year 2017, at which time the Authority shall convey ownership of the property to the County. The principal payments range from $125,000 due in 2005 to $225,000 due in 2017. The interest rates on the outstanding bonds range from 5.3 percent to 6.0 percent at December 31, 2004. The Facility is accounting for these transactions as if they were direct obligations of the Facility.

The following is a schedule by years of bond principal and interest as of December 31, 2004:

Year	Bond Payable	Bond Interest
2005	$ 125,000	$ 118,288
2006	125,000	111,600
2007	125,000	104,788
2008	125,000	97,850
2009	150,000	94,350
2010-2014	825,000	337,600
2015-2017	625,000	76,500
Total payments	$ 2,100,000	$ 940,976

Note 6 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The Facility, as part of the County, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general and auto liability (including medical malpractice), auto physical damage, and property loss claims. The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for the losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims to the retention limits, the ultimate liability for those claims remains with the County.

The Facility is insured for the workers' compensation claims via a policy with a commercial carrier.

Note 6 - Risk Management (Continued)

The Facility is insured against potential professional liability claims under an occurence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known outstanding or pending claims at December 31, 2004.

The Facility, as part of the County, is self-insured for the employees' medical benefit claims. The Facility estimates the liability (included in accrued liabilities) for employee medical benefit claims through the end of the fiscal year, including claims that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	2004	2003
Estimated liability - Beginning of year	$ 75,000	$ 75,000
Estimated claims incurred, including changes in estimates	878,535	928,008
Payments made	(953,535)	(928,008)
Estimated liability - End of year	$ -	$ 75,000

Note 7 - Endowment Fund Held by Third Parties

The Facility is the beneficiary of a trust, which is maintained by an outside trustee, the Barry Community Foundation. The balance in the trust was approximately $45,000 at December 31, 2004 and 2003. Approximately $25,000 of this balance is available for distribution to the Facility.

Additional Information

To the Barry County Family
Independence Agency Board
Thornapple Manor

We have audited the financial statements of Thornapple Manor as of December 31, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 22, 2005

Schedule of Net Service Revenue

	Year Ended December 31	
	2004	2003
Skilled Nursing Services		
Daily net room revenue:		
Medicaid	$ 6,253,486	$ 5,538,580
Medicare	980,757	1,018,902
Private pay and other	865,631	953,107
Total daily net room revenue	8,099,874	7,510,589
Ancillary revenue:		
Pharmacy	229,352	195,183
Therapy services	756,874	722,872
Other ancillary services	98,644	81,035
Total ancillary revenue	1,084,870	999,090
Gross skilled nursing services revenue	9,184,744	8,509,679
Revenue Deductions		
Provision for contractual discounts	722,092	360,439
Bad debt expense	24,508	-
Total revenue deductions	746,600	360,439
Net Service Revenue	**$ 8,438,144**	**$ 8,149,240**

Thornapple Manor

Schedule of Operating Expenses

	Year Ended December 31			
	2004			2003
	Salaries	Other	Total	Total
Fringe benefits	$ -	$ 1,931,891	$ 1,931,891	$ 1,895,585
Administration	473,534	202,584	676,118	609,721
Plant operations	83,618	293,055	376,673	395,240
Laundry	206,647	67,720	274,367	258,029
Housekeeping	222,581	45,921	268,502	242,975
Dietary	483,201	421,586	904,787	803,986
Medical records	-	12,000	12,000	12,000
Diversional therapy	121,582	10,727	132,309	128,525
Other ancillary services	-	16,059	16,059	-
Therapy services	283,325	16,095	299,420	290,738
Pharmacy	-	197,392	197,392	172,986
Nursing	3,085,003	371,839	3,456,842	3,230,226
Other services	-	24,652	24,652	27,066
Inservice education	63,989	907	64,896	53,754
Nurse aide testing	24,720	-	24,720	73,683
Depreciation	-	227,244	227,244	239,999
Maintenance of effort	-	220,940	220,940	206,222
2004 totals	**$ 5,048,200**	**$ 4,060,612**	**$ 9,108,812**	
2003 totals	**$ 4,775,231**	**$ 3,865,504**		**$ 8,640,735**

Additional Information

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To the Barry County Family
Independence Agency Board
Thornapple Manor

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Thornapple Manor

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Maintenance of effort	-	220,940	220,940	206,222
2004 totals	**$ 5,048,200**	**$ 4,060,612**	**$ 9,108,812**	
2003 totals	**$ 4,775,231**	**$ 3,865,504**		**$ 8,640,735**